



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of

The Financial Examination of
COLUMBIA UNITED PROVIDERS

A Registered Health Care
Service Contractor.

No. G05-19

FINDINGS, CONCLUSIONS,
AND ORDER ADOPTING REPORT
OF EXAMINATION

BACKGROUND

An examination of the financial condition of **COLUMBIA UNITED PROVIDERS**, (the Company) as of December 31, 2002, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on March 28, 2005. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

COLUMBIA UNITED PROVIDERS
Order Adopting Examination Report
April 28, 2005

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 14 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **COLUMBIA UNITED PROVIDERS** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations in the report are appropriate responses to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-3.

1. Pursuant to RCW 48.43.097, the Company is ordered to ensure that the claims runoff schedules and the general ledger balances for claims incurred and paid are all inclusive, accurate and consistent as required by the NAIC Accounting Practices and Procedures Manual (AP&P), Appendix A-010, paragraph 27. Instruction 1, Examination Report, page 1.
2. Pursuant to WAC 284-07-050(2), the Company is ordered to comply with SSAP No. 3(10) which states that corrections of errors in previously issued financial statements shall be approved by its domiciliary regulator and reported as adjustments to unassigned funds (surplus) in the period the error is detected. Instruction 2, Examination Report, page 2.
3. The Company is ordered to consider increasing its fidelity bonding to an appropriate level for its exposure and in line with the recommendations of the NAIC. Comments and Recommendations 1, Examination Report, page 2.
4. The Company is ordered to consider preparing a formal, written Business Contingency Plan that addresses the continuation of all significant business activities, including financial

functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by the NAIC. Comments and Recommendations, Examination Report, page 3.

IT IS FURTHER ORDERED THAT, Columbia United Providers file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how Columbia United Providers has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 28th day of April, 2005.

A handwritten signature in black ink, appearing to read "Mike Kreidler", is written over the printed name.

MIKE KREIDLER
Insurance Commissioner



April 13, 2005

DATE RECEIVED: 4/19/05
FINANCIAL EXAMINATIONS
INSURANCE COMMISSIONER/SEATTLE

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
State of Washington Insurance Commissioner
5000 Capitol Blvd.
Tumwater, WA 98501

RE: Financial Examination Report of Columbia United Providers, Inc.
As of December 31, 2002

Dear Mr. Odiorne:

Thank you for providing Columbia United Providers with a copy of the Financial Examination Report as of December 31, 2002. Please note that the draft of the report we received from you dated March 28, 2005, is the first draft of the report we have reviewed. We have a few minor points of factual clarification, as well as responses to the Instructions, Comments and Recommendations. Our clarifications and responses can be found on the attached pages. My understanding is that our responses to the Instructions, Comments and Recommendations will become a part of the public document. Please let me know if my understanding is incorrect prior to the report becoming a public document.

We appreciate the opportunity to work with the Office of Insurance Commissioner on this matter. Please direct any inquiries regarding our responses to Columbia United Providers' Chief Financial Officer, Ann Wheelock. Ann can be reached at (360) 449-8938, or awheelock@cuphealth.com

Sincerely,

Errol E. Robert-Rourk Glynn
CEO and President

Cc: Michael G. Watson, Chief Deputy
Patrick H. McNaughton, Chief Examiner

Factual Clarifications and Informational Updates:

Territory and Plan of Operation

Under the Company Profile section, specifically Territory and Plan of Operation, it is noted that CUP expanded its coverage area from Clark County to the adjacent counties of Cowlitz, Wahkiakum and Skamania in 2001. As an update to this information, CUP ceased its operations in Cowlitz and Wahkiakum counties as of December 31, 2003, and currently has no plans to re-enter those counties.

Affiliated Companies

Under the second paragraph of the Affiliated Companies section, it is noted that as of July 1, 2001, CUP assumed the defined benefit pension plan expense for its employees from SWMC. This is not correct. As of July 1, 2001, these employees **are no longer** covered under the **defined benefit** pension plan sponsored by SWMC's parent, Health Systems Group. As of July 1, 2001, CUP established its **own defined contribution** 401(k) plan for these employees, as noted under the Management and Control- Officer's, Employees', and Agents' Welfare and Pension Plans section of the report.

Responses to Instructions:

Claims Incurred and Paid Database

This instruction states that the incurred and paid dates, and the amounts for fee-for-service pharmacy payments, were not included in the incurred and paid run-off schedules. We are not sure if this instruction is stating that incurred and paid dates are missing for certain claims included in the run-off schedules, or just for those pharmacy claims not included in the run-off schedules. We do wish to clarify that all claims included in the run-off schedules do show their correct incurred and paid dates.

CUP incurred approximately \$60 million of medical expenses in 2002. Of these expenses, \$6.3 million was for pharmacy expense. All but \$1.2 million of this pharmacy expense is paid under a capitation arrangement, whereby CUP prepaid a pharmacy retail chain to bear all risk for pharmacy claims payment for CUP's members. CUP remained at risk for pharmacy claims in one region (which included Cowlitz and Wahkiakum Counties), where it incurred \$1.2 million of pharmacy expense under a fee-for-service arrangement with the same pharmacy retail chain (CUP has since ceased operations in these counties). Pharmacy claims are processed and settled in a much different manner than other types of medical claims, such as physician office claims. Because pharmacy claims are submitted and processed simultaneously with the patient receiving their prescription, there is a much reduced lag between the rendering of the service and final payment to the pharmacy. The data is priced and compiled by the third-party pharmacy benefit manager at the time of service. Payment by the health plan to the retail pharmacy is generally made in the same month that the service is delivered (or sooner) and there is not the weeks or months of variable payment lag time as is associated with other types of medical claims. In 2002, CUP actually prepaid the retail pharmacy vendor each month based on an estimate of the claims to be incurred in the fee-for-service region that month. The actual claims incurred that month were known as of the last day of the month, and CUP settled each month with the retail pharmacy vendor for the difference between actual claims and the prepayment amount for that month. Any liability or receivable for a month's pharmacy cost vs. prepayment difference was appropriately recorded to the financial statements in that month, and the receivable or payable was settled within 10 days after month-end.

Because the pharmacy claims are settled each month and there is essentially no lag to be presented on a run-off schedule which compares the claims incurred in a given month to month of payment, we are concerned that inclusion of fee-for-service pharmacy claims in our general lag table would distort the turn-around information about our other types of claims, which have variable payment lags. However, we will prepare a claims lag table for any fee-for-service pharmacy

claims that CUP does incur in the future, which will show that all liability is settled either in the month incurred or within 10 days of month-end.

Filing of Amended Annual Statement

As noted, the reclassifications filed with the amended 2002 Annual Statement were deemed immaterial to the examination. The amended filing was made to more properly state these balances, and CUP was unaware of requirement to seek approval of the domiciliary regulator prior to the correction of any misclassifications. CUP will comply with this requirement in all future periods.

Responses to Comments and Recommendations:

Fidelity Bonding

As noted elsewhere in the report, CUP increased its fidelity bonding based on the minimum levels suggested by the NAIC. The increase in fidelity bonding remains in effect and will be continued in future periods.

Business Contingency Plan

CUP has been working with its significant business partners to complete a formal, written Business Contingency Plan that addresses the continuation of all significant business activities. The report will be finalized shortly and an informational copy will be forwarded to the State of Washington Insurance Commissioner.